HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Thunder Bay CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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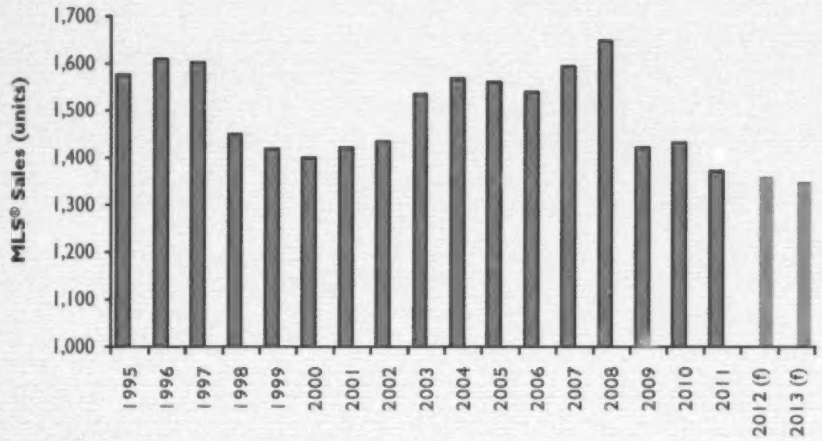
Market at a Glance

- Supply will continue to affect home buying with sales slipping nearly one per cent both this year and in 2013. Average resale prices will rise fourteen per cent in 2012 in Thunder Bay and another seven per cent next year as strong seller's market conditions persist.
- Single-detached housing starts will rise 6.4 per cent this year and another 5.0 per cent next year while starts of apartment and condominium units will not keep pace with 2011's strong construction.
- Direct mining activity and indirect jobs stemming from this upswing in activity will be key to near-term job growth. Further net in-migration is expected during the forecast period.

Figure 1

Resales in Thunder Bay To Move Sideways



(f) CMHC Forecast; Note: TBREB sales are for Districts 1 & 2 only
Source: TBREB, CMHC.

*The forecasts included in this document are based on information available as of October 17, 2012.

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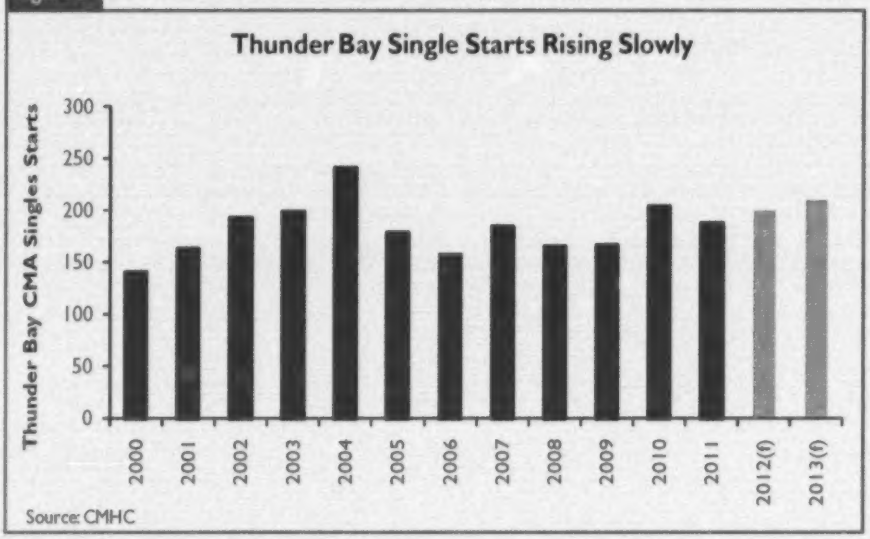
Resale Market

Seller's market conditions persist

While Thunder Bay existing home sales will moderate in the immediate term, they will gain momentum as economic conditions improve through 2013. Sales, however will be tempered by a shortage of listings. The listings shortage will cause sales to inch down one per cent in 2012 and another 0.6 per cent in 2013. Thunder Bay's residents prefer single detached homes. As households age, they are not showing a significant propensity to sell their homes even as children age and leave the home. Improved health in older people is contributing to this trend. 2011 census numbers just released reveals the continuing trend towards an aging population, with the number of those aged 65-plus growing by one thousand between 2006 and 2011. This older group of people remains faithful to their single-detached homes, causing listings shortages.

Figure 2

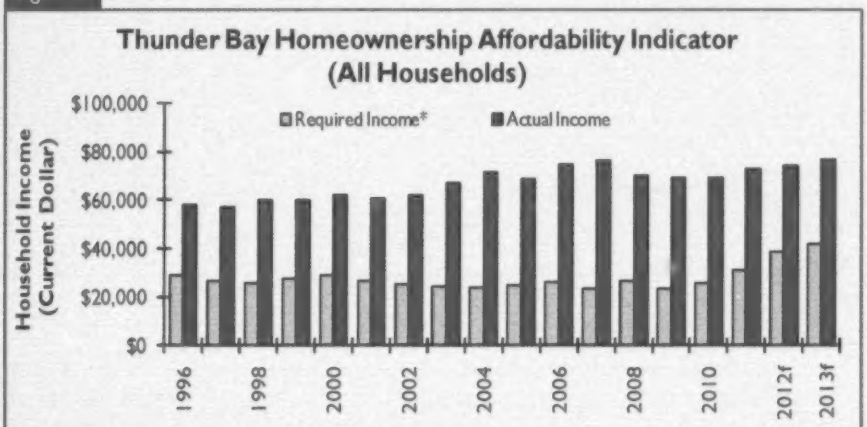


Additionally, employment is fuelling sales growth in the housing market. Although net employment growth has remained flat, mining related expansion will lead the way with jobs elsewhere in manufacturing and in the service sector. While year-to-date job growth is still positive when compared to one year previous, the strong run-up in employment began to stall in the first quarter of 2012 and has since subsided. Even with the flattening of employment growth, CMHC expects job growth of 4.9 per cent in 2012 and another 1.1 per cent in the year ahead.

Active Listings, as of September 30th, are slightly higher than last year at this time, while new listings are also rising slightly out of a trough that was a historic low for Thunder Bay. Although it is unclear whether the trend towards growth in listings will be sustained, new condominium projects being launched do have the potential to encourage listings in the resale market if empty nesters are attracted in sufficient numbers to the new higher density lifestyle.

Average prices will rise 14 per cent in 2012 and seven per cent in 2013. The ageing-in-place phenomenon will continue to limit the growth in listings and fuel further price gains. As the relationship between supply and demand strongly favours sellers, prices will continue to grow albeit at a slower rate

Figure 3



Sources: CMHC, Statistics Canada, CREA, f=CMHC Forecast. *Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

Rapid average price growth, brought on by the tight listings environment and employment stability, does raise concerns about the narrowing gap between required income and actual income. However, as of now, with the exception of Windsor, Thunder Bay is the most affordable of all centres over 100,000 in the province.

New Home Market

Single-detached starts to top ten-year average

Strong third quarter starts brought on by sound economic fundamentals and a tight resale market have caused contractors to be very busy through the June-to-September period. It is expected that this flurry of activity will continue through to the end of the year. With rising prices and an aging population, additional higher density ownership units will likely come on stream. Expect single-detached starts to climb to 200 units in 2012 and rise again next year. Another above average year for multi-family starts will bring the 2012 total to 360 units. While no growth will be registered for apartment starts in 2013, starts will remain elevated.

Local market watchers are following three building sites where condominium units are planned. These projects scheduled to come on stream this year and next will each offer something different to consumers seeking the lifestyle that condominium living brings. Marketing packages for the projects list prices at the higher-end of the market when compared to what has traditionally been offered.

Single-detached construction is up year-over-year. Nevertheless, given current different conditions, numbers pale in comparison to the boom years of the late 80's and early 90's. Increasing construction costs, fully serviced land availability and relatively small homebuilding industry are factors that come to mind. Despite this the 200 singles expected this year and 210 units expected in 2013 will be above the 15 year average for single-detached construction in Thunder Bay. Higher than average single-detached starts will be fuelled by tight detached resale market conditions and very few newly completed and unoccupied supply

As has been discussed in previous reports, speculative building remains absent in the Thunder Bay market. The average number of newly completed and unoccupied unit sits at four units for the first eight months of 2012, up from three last year but well below a level that would cause any concern. No marked change is expected in this indicator.

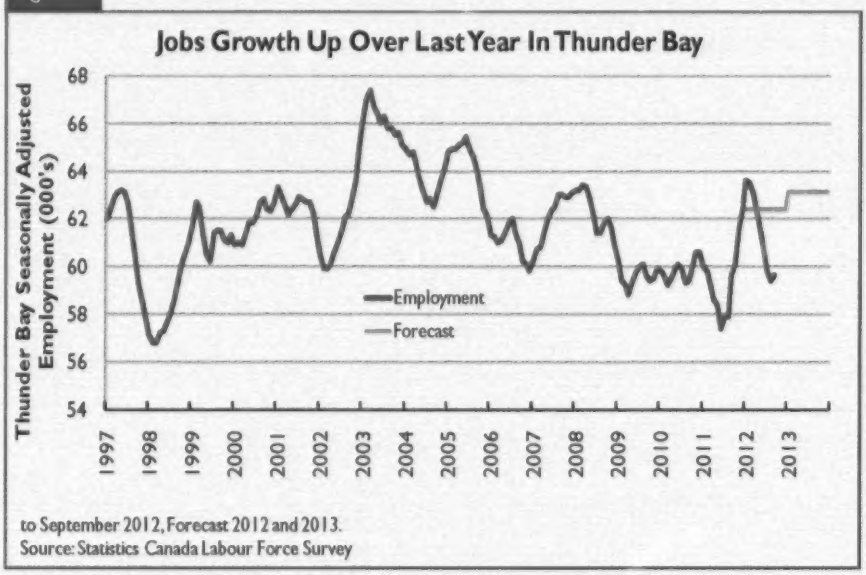
The eight-month average value of completed and occupied units shows that prices are only one-half of one per cent up year-over-year, with average prices estimated to be $319,000. New home prices for 2012 are expected to rise two per cent this year and a further one per cent next year. Strong growth in resale prices and higher costs for land and other building materials will encourage builders to raise prices. Price increases will cause consumers to seek more modest new homes leading to more subdued growth in average prices.

Economic Outlook

Employment up year-over-year in Thunder Bay

After a strong first quarter, employment growth has levelled off in Thunder Bay. Mining readiness is the focus of the City at present and the community attempts to reap the most benefits from the growth underway in this vibrant sector. Additionally, as of late, more jobs are full-time positions. This may partially explain the positive

Figure 4



to September 2012, Forecast 2012 and 2013.
Source: Statistics Canada Labour Force Survey

move in the third quarter in average weekly earnings after a somewhat poor performance in the second quarter. With prices for ownership housing growing well above inflation, income growth will be increasingly important to monitor in order to determine how affordability is being impacted.

Stronger income growth linked to continued movement towards more mining, medical research and spinoff knowledge sector jobs and overall tightening conditions as evidenced by the declining unemployment rate is being observed. Look for average weekly earnings to grow 2.1 per cent this year and another 3.5 per cent in 2013. Rising optimism of a recovering US housing market is giving rise for optimism for the sole Thunder Bay dimensional lumber producer while it is difficult to know if former producers will be able to ramp up and begin producing given the conditions of some of the mothballed operations.

Thunder Bay's working aged population unchanged

Thunder Bay's working aged population will need to grow to support economic development going forward. The 2006 to 2011 period witnessed no change to the 15-64 population but given the slight dip in population, this age group's percentage of total population grew slightly. Look for this segment of the population to grow as the region ramps up to accommodate new job growth. In-migration is forecast to pick up again this year and next driven by in-flows from all parts of the country and world.

Mortgage Rate Outlook

Mortgage rates to remain low

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

Forecast Summary Thunder Bay CMA Fall 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	1,421	1,434	1,373	1,360	-0.9	1,350	-0.7
MLS® New Listings	1,987	1,831	1,677	1,600	-4.6	1,700	6.3
MLS® Average Price ($)	145,074	155,060	168,672	193,000	14.4	206,500	7.0
New Home Market							
Starts:							
Single-Detached	166	204	188	200	6.4	210	5.0
Multiples	14	18	186	160	-14.0	160	0.0
Semi-Detached	6	10	8	20	150.0	30	50.0
Row/Townhouse	4	4	12	20	66.7	20	0.0
Apartments	4	4	166	120	-27.7	110	-8.3
Starts - Total	180	222	374	360	-3.7	370	2.8
Average Price ($):							
Single-Detached	270,513	319,582	324,604	331,096	2.0	334,407	1.0
Median Price ($):							
Single-Detached	274,900	309,900	312,000	321,360	3.0	327,787	2.0
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	0.7	-0.5	0.1	1.4	-	1.5	-
Rental Market							
October Vacancy Rate (%)	2.3	2.2	1.7	1.5	-0.2	1.3	-0.2
Two-bedroom Average Rent (October) ($)	732	763	772	793	2.7	815	2.8
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-0.15	3.78	0.41
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-0.11	5.37	0.11
Annual Employment Level	59,600	59,800	59,500	62,400	4.9	63,100	1.1
Employment Growth (%)	-4.2	0.3	-0.5		4.9		1.1
Unemployment rate (%)	8.3	6.6	6.9	5.5	-	5.3	-
Net Migration	92	441	229	450	97	500	11

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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